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# In Our Opinion...

*The Newsletter of the AICPA Auditing Standards Division\**

Volume 9 Number 2

August 1993

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## THE INTERNATIONAL AUDITING PRACTICES COMMITTEE

*by Walt Conn*

Although the work of the International Auditing Practices Committee (IAPC) affects many auditors in the United States, the IAPC is not well known. This article provides information about what the IAPC is and how its work will affect practice in the U.S.

The IAPC is a standing committee of the International Federation of Accountants (IFAC), which was formed in 1977 by the International Congress of Accountants. IFAC was organized with the broad objective of developing and enhancing a coordinated worldwide accountancy profession with harmonized standards. IFAC's members consist of approximately 100 professional accountancy bodies, in about 80 countries.

IAPC is to IFAC as the Auditing Standards Board is to the American Institute of Certified Public Accountants (AICPA). IAPC's objectives are to develop pronouncements on auditing and reporting practices and to promote the voluntary acceptance of such pronouncements by the member professional accountancy bodies. IAPC originally issued International Auditing Guidelines; however, effective in 1991, the Committee redesignated all Guidelines as "Standards," and each document was renamed as an International Standard on Auditing (ISA). This redesignation was deemed appropriate because it more accurately describes the intent of the documents.

The IAPC has undertaken new initiatives to improve the pronouncements and to develop a complete set of ISAs to meet the needs of the capital markets and the international business community. The initiatives include (1) an overall review of the Standards for consistency, technical accuracy, clarity, and adequacy of guidance, (2) a consolidation of several of the Standards into one or more new Standards, (3) the addition of new procedures to the Standards to equip them for use in international financing, and (4) a codification of the individual Standards into a more logical framework for use by national standard setting bodies and by auditors.

The objective of the codification project is to consolidate and codify the documents in order to facilitate the use of the Standards by the accountancy profession. The codification

project consists of a comprehensive review of all ISAs, as well as identification of the basic principles and essential procedures in the Standards in bold-type (blacklettering). All of the final codified ISAs will be printed in the July 1994 Handbook.

Robert Roussey, a retired Arthur Andersen partner and professor in the School of Accounting at the University of Southern California, is the United States representative to the IAPC. Mr. Roussey previously served on the AICPA's Auditing Standards Board.

### **IOSCO**

The International Organization of Securities Commissions (IOSCO) represents the major securities regulators around the world. IOSCO has emphasized the need for mutually acceptable auditing (and accounting) standards for use in international offerings of securities and in other foreign issues of equity and debt securities.

In October 1992, IOSCO endorsed IAPC's ISAs. In making this endorsement, IOSCO stated that the ISAs represent a comprehensive set of auditing standards and that audits conducted in accordance with these standards could be relied upon by securities regulatory authorities for multinational reporting purposes. The endorsement has the effect of encouraging all IOSCO members (over 100 exchange regulatory bodies from approximately 60 countries) to accept the ISAs as an acceptable basis for use in cross-border offerings and continuous reporting by foreign issuers. As of June 30, 1993, approximately 15 countries had already considered and accepted IOSCO's endorsement. IOSCO, however, has expressed concern that blacklettering may inappropriately deemphasize paragraphs that would have been regarded as basic principles or essential procedures before blacklettering. An IOSCO working party is reviewing the blacklettered and non-blacklettered material and will present its comments to IAPC.

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***Effect on U.S. Auditors***

If the Securities and Exchange Commission eventually adopts the IOSCO resolution, the effect on U.S. auditors would be twofold.

- A foreign registrant filing in the U.S. could file financial statements audited by its foreign auditor in accordance with International Standards on Auditing.
- A U.S. registrant filing in foreign markets could file financial statements audited by its U.S. auditor in accordance with

International Standards on Auditing. Currently, however, the AICPA's standards would require a U.S. auditor to perform the audit in accordance with generally accepted auditing standards and the international standards.

After completion of IAPC's codification project, the Auditing Standards Division will identify requirements in ISAs that exceed the requirements of U.S. generally accepted auditing standards in volume 1 of the AICPA's *Professional Standards*.

For additional information about IFAC, contact Anthony N. Dalessio, Deputy Director General at 212/302-5952.

## **AUDIT/ASSURANCE CONFERENCE**

*by Jane Mancino*

The AICPA's Auditing Standards Division held a conference in Santa Fe, NM on May 4-6, 1993 to discuss the future of the audit/assurance function (AA function). The conference was sponsored by the Big Six accounting firms and the AICPA's Private Companies Practice Section. Participants represented a cross-section of the profession, including Big Six firms, regional and local firms, academia, regulators, and other professional and oversight organizations.

The purpose of the conference was to analyze the current status of the AA function and to develop a broad plan for shaping its future. The conference participants created a "vision map" showing the state of the AA function and the primary factors that influence its growth and development. The vision map also included a description of what the AA function should become and how the profession might achieve that goal.

The conference participants concluded that the AA function should be redefined to include providing assurance on the reliability or relevance of information or an information process that is the responsibility of another party. This definition retains the traditional role of the AA function—to reduce uncertainty about the reliability of information. However, the

definition proposes an expansion of this traditional role by involving auditors in reducing uncertainty about the *relevance* of information. Reducing uncertainty about information relevance potentially could involve the auditor in analyzing and interpreting information and reporting on what it means or how to use it. Conference participants believe that such qualitative judgments would enhance the value of information to users and thus elevate the utility of the AA function. In addition, this expansion would likely involve auditors in creating or originating information for others or in supplementing information provided by others.

Achieving this goal would require new skills and reporting methods and would require that the profession address barriers such as the traditional auditor mindset, competence, competition, regulation, existing standards, and litigation. However, the participants believe that the survival of the AA function rests on the willingness and ability of the profession to take such actions.

A transition team composed of six conference participants has been formed to prepare a final report and take steps to implement the conference recommendations. This report should be available for distribution in late 1993.

## **TECHNICAL PLAN HIGHLIGHTS**

***Accounting and Review Services*** (Staff Aide: JUDITH SHERINSKY). In April 1993, the Accounting and Review Services Committee issued Statement of Position (SOP) 93-5, *Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations* (CIRAs). The SOP amends the Audit and Accounting Guide *Common Interest Realty Associations* which requires CIRAs to disclose certain supplementary information outside the basic financial statements. The SOP provides accountants with performance and reporting guidance when compiling or reviewing the financial statements of a CIRA. Among other provisions, the SOP requires that the accountant, at a minimum, compile the required supplementary information when it accompanies compiled or reviewed financial statements.

To familiarize clients with the purpose and contents of a rep-

resentation letter, the Auditing Standards Division has prepared a brochure titled *The Representation Letter in a SSARS Review Engagement* (Product # 055120). Statement on Standards for Accounting and Review Services (SSARS) No. 7, which was issued in November 1992 and is effective for periods ending after December 15, 1993, makes obtaining a representation letter a required, rather than an optional, procedure in a SSARS review engagement.

***Agreed-Upon Procedures*** (A. LOUISE WILLIAMSON). The Agreed-Upon Procedures Task Force is considering amendment or expansion of the performance and reporting guidance in professional standards dealing with agreed-upon procedures engagements. The task force is considering guidance concerning the practitioner's reporting responsibility for both findings and assurances in such engagements. The task force is also considering whether internal auditors may be

used in agreed-upon procedures engagements and what effect the use of internal auditors would have on agreed-upon procedures reports. In addition, the task force has updated the related issues paper that was presented to the ASB in June 1990 identifying all instances in the professional standards where negative assurance based on agreed-upon procedures is permitted. The task force is expected to present a draft of guidance for agreed-upon procedures engagements at the August ASB meeting.

**Audits of Small Businesses** (ALAN WINTERS). The Auditing Procedure Study (APS) titled *Audits of Small Businesses* is being revised to reflect SAS Nos. 53-62. (APSs provide practitioners with non-authoritative practical assistance concerning auditing procedures.) The chapters on evaluating internal controls and on performing analytical procedures will be revised to discuss the implementation of SAS Nos. 55 and 56, *Consideration of the Internal Control Structure in a Financial Statement Audit* and *Analytical Procedures*, respectively, in small business audits. Other changes will be made throughout the study to provide guidance that is consistent with recently-issued standards. The revised APS will be available in the first quarter of 1994.

**Audit Sampling** (DOUG SAUTER). A task force is developing an APS to replace the Audit and Accounting Guide, *Audit Sampling*. The APS updates the guide for recently issued Statements on Auditing Standards.

**Auditing "Soft" Accounting Information** (JUDITH SHERINSKY). The task force is examining existing and proposed accounting standards that generate "soft" financial statement information to determine what additional guidance auditors may need to audit this information. An example of "soft" accounting information is the estimates contained in financial statements. The task force is currently considering auditability issues related to the proposed SOP, *Disclosure of Certain Significant Risks and Uncertainties and Financial Flexibility*.

**Compliance Attestation** (WALT CONN). The ASB has developed a general compliance attestation standard on testing and reporting on compliance requirements. An exposure draft Statement on Standards for Attestation Engagements (SSAE), titled *Compliance Attestation*, was published in April 1993 (Product # 800046) with a comment deadline of June 30, 1993. The ASB will discuss comments received on the exposure draft at the August ASB meeting.

**Computer Auditing** (JANE MANCINO). The Computer Auditing Subcommittee is currently drafting four APSs. The first addresses the possible effects of advanced EDP systems on the auditor's consideration of an entity's internal control structure over financial reporting. The second updates the guidance in the Audit and Accounting Guide, *Computer-Assisted Audit Techniques*. The third study describes client server computing and its possible impact on the financial statement audit. The fourth study is a joint project with the

Canadian Institute of Chartered Accountants on the possible audit impact of Electronic Data Interchange and Digital Image Processing. The first and second studies are expected to be published in the fourth quarter of 1993, the third study in 1994, and the fourth in 1995.

**Financial Forecasts and Projections** (WALT CONN). The Forecasts and Projections Task Force monitors and addresses problems encountered in implementing the guidance in the *Statement on Standards for Accountants' Services on Prospective Financial Information, Financial Forecasts and Projections*. An updated AICPA Audit and Accounting Guide, *Guide for Prospective Financial Information*, was published in March 1993.

**Not-for-Profit Organizations** (A. LOUISE WILLIAMSON). The Not-for-Profit Organizations Committee issued SOP 92-9 titled *Audits of Not-for-Profit Organizations Receiving Federal Awards*, in December 1992. The SOP provides implementation guidance for audits conducted in accordance with Office of Management and Budget Circular A-133. The SOP amends certain related AICPA Audit and Accounting Guides.

**Reporting on Internal Control** (A. LOUISE WILLIAMSON). In May 1993, the ASB issued SSAE No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting* (Product # 023056), which supersedes SAS No. 30, *Reporting on Internal Accounting Control*. SSAE No. 2 is effective for examinations of management's assertion when the assertion is as of December 15, 1993 or thereafter. This statement provides guidance to the practitioner engaged to examine and report on management's written assertion about the effectiveness of an entity's internal control structure over financial reporting. Among other provisions, it establishes standards for accepting, performing and reporting on examination engagements for such assertions. The ASB has requested that the task force review SAS No. 58, *Reports on Audited Financial Statements*, to determine whether this guidance needs to be amended as a result of the new SSAE.

**SAS No. 11 Guidance Task Force** (JEANNE SUMMO). The SAS No. 11 Guidance Task Force was formed to consider whether the guidance in SAS No. 11, *Using the Work of a Specialist*, continues to be appropriate. The task force developed a proposed revision to SAS No. 11 which incorporates the conclusions in two interpretations of the SAS and refines the guidance on using a specialist who is related to the client. The document was issued as an exposure draft SAS in April 1993 with a comment period ending June 30, 1993. The Board plans to discuss comment letters received on the exposure draft at its October meeting.

**SAS No. 59 Guidance Task Force** (JUDITH SHERINSKY). The task force is considering issues related to SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to determine whether there is a need for additional guidance in the form of amendment or interpretation of SAS No. 59.

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**SAS No. 68 Revision Task Force** (A. LOUISE WILLIAMSON). A task force was formed to consider revisions to SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Federal Financial Assistance*, as a result of newly issued guidance in SOP 92-7, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance*, SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, and the draft proposed Audit and Accounting Guide, *Audits of State and Local Governmental Units*. The task force will consider the effect of proposed revisions to the General Accounting Office's (GAO's) Government Auditing Standards and possible revisions to the Single Audit Act of 1984 resulting from studies conducted by the GAO and the President's Council on Integrity and Efficiency.

**SAS No. 70 Auditing Procedure Study** (JUDITH SHERINSKY). The task force is developing an auditing procedures study (APS) that will provide guidance to auditors on implementing SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*. The APS will provide guidance to service auditors on performing and reporting on a service auditor's engagement and to user auditors on using a service auditor's report in the audit of the financial statements of a user organization. Examples of service organizations are bank trust departments that invest and hold assets for employee benefit plans and data processing centers that process transactions and related data for others. SAS No. 70 is effective for service auditors' report dated after March 31, 1993.